AutoCanada

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the three and six month periods ended June 30, 2017

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1. READER ADVISORIES

This Management's Discussion & Analysis ("MD&A") was prepared as of August 10, 2017 to assist readers in understanding AutoCanada Inc.'s (the "Company" or "AutoCanada") consolidated financial performance for the three month period and six month period ended June 30, 2017 and significant trends that may affect AutoCanada's future performance. The following discussion and analysis should be read in conjunction with the unaudited condensed interim consolidated financial statements and accompanying notes (the "Interim Consolidated Financial Statements") of AutoCanada as at and for the three month period and six month period ended June 30, 2017, the audited annual consolidated financial statements and accompanying notes (the "Consolidated Financial Statements") of AutoCanada as at and for the year ended December 31, 2016, and MD&A for the year ended December 31, 2016. Results are reported in Canadian dollars. Certain dollars have been rounded to the nearest thousand dollars, unless otherwise stated.

To provide more meaningful information, this MD&A typically refers to the operating results for the three month period and six month period ended June 30, 2017 of the Company, and compares these to the operating results of the Company for the three month period and six month period ended June 30, 2016.

This MD&A contains forward-looking statements. Please see the section "FORWARD-LOOKING STATEMENTS" for a discussion of the risks, uncertainties and assumptions used to develop our forward-looking information. This MD&A also makes reference to certain non-GAAP measures to assist users in assessing AutoCanada's performance. Non-GAAP measures do not have any standard meaning prescribed by GAAP and are therefore unlikely to be comparable to similar measures presented by other issuers. These measures are identified and described under the section "NON-GAAP MEASURES".

Additional information regarding our Company, including our 2016 Annual Information Form, dated March 16, 2017, is available on SEDAR at www.sedar.com and our website www.autocan.ca. Such additional information is not incorporated by reference herein, unless otherwise specified, and should not be deemed to be made part of this MD&A.

2. EXECUTIVE SUMMARY

Highlights

- Revenue in the quarter was up 6.3% compared to the second quarter of 2016. Operating expenses as a percentage of gross profit declined to 78.5% compared with 80.1% over the same period last year.
- Gross profit was $143.8 million in the second quarter, compared with $134.7 million in the same quarter of 2016, with gross profit as a percentage of revenue increasing slightly to 16.1% from 16.0%.
- New vehicle unit sales were 13,429, up 11.0% from the same period in 2016. Revenue from new vehicle sales was $558.7 million in the quarter, up 12.4% from 2016. New vehicle sales accounted for 62.4% of the Company's total revenue and 26.8% of gross profit versus 59.0% of revenue and 25.5% of gross profit in the second quarter of 2016.
- Used vehicle unit sales were 5,061, down 5.0% from the same quarter last year. Revenue from used vehicle sales was $182.9 million in the quarter, down 12.1% from last year. Used vehicle sales accounted for 20.4% of the Company's total revenue and 9.1% of gross profit, versus 24.6% of revenue and 10.2% of gross profit in 2016.
- Parts, service and collision repair generated $114.0 million of revenue in the second quarter, up 13.6% from 2016. This accounted for 12.7% of the Company's total revenue and 39.1% of its gross profit, versus 11.9% of revenue and 39.3% of gross profit in 2016.
- Finance and insurance generated $39.3 million of revenue in the second quarter, an improvement of 6.6% from 2016. This accounted for 4.5% of the Company's total revenue and 25.0% of its gross profit, reflecting similar numbers from 2016.
- EBITDA attributable to AutoCanada shareholders was $43.7 million, up 61.4% from last year. Operating profit before other income was $30.9 million, up 15.5% from last year.
- Adjusted earnings per share were $0.57. Including a one-time payment of $9.8 million net of related expenses and tax, as part of a settlement with an OEM, earnings per share were $0.91.
- The Company renegotiated the terms of one of its credit facilities to match an existing facility and free-up $20.5 million of working capital.

Performance vs. the Second Quarter of Prior Year

The following table summarizes the Company's results for the quarter ended June 30, 2017:

	Three months ended June 30		
Consolidated Operational Data	**2017**	**2016**	**% Change**
EBITDA[1,2]	43,683	27,072	61.4%
Adjusted EBITDA[1,2]	30,748	29,095	5.7%
Net earnings[1]	24,978	14,158	76.4%
Adjusted net earnings[1,2]	15,547	15,523	0.2%
Basic EPS	0.91	0.53	71.7%
Adjusted diluted EPS[2]	0.57	0.57	0.0%
New retail vehicles sold (units)	10,545	9,374	12.5%
New fleet vehicles sold (units)	2,884	2,724	5.9%
New vehicles sold (units)	13,429	12,098	11.0%
Used retail vehicles sold (units)	5,061	5,327	(5.0)%
Total vehicles sold (units)	18,490	17,425	6.1%
Revenue	894,902	842,257	6.3%
Gross Profit	143,823	134,702	6.8%
Gross Profit %	16.1%	16.0%	0.6%
Operating profit before other income	30,926	26,770	15.5%
Operating expenses	112,897	107.932	4.6%
Operating expenses as % of gross profit	78.5%	80.1%	(2.0%)
Free cash flow[2]	10,982	37.922	(71.0)%
Adjusted free cash flow[2]	36,277	21,632	67.7%

(1) *Represents the portion attributable to AutoCanada Shareholders.*
(2) *These financial measures have been calculated as described under "NON-GAAP MEASURES".*

Industry

New vehicle sales in Canada in the second quarter of 2017 were 618 thousand, an increase of 5.3% over the same period in 2016[1]. Sales for the first six months of the year exceeded one million for the first time and June sales of more than 203 thousand was a new record for a single month. Year-to-date, passenger vehicle sales were down 2.0% while light truck sales were up 8.8%.

AutoCanada's sales of new vehicles exceeded the national average with a 12.5% increase in quarter-over-quarter sales. The Company's revenues increased in almost every region of the country, with the exception of Atlantic Canada and Saskatchewan.

The other business streams within the Company's dealerships also performed well during the quarter. While used vehicle sales dropped 12.1%, revenue from service and collision repairs was up 13.6% and revenue from finance and insurance rose 6.6% in the quarter, when compared to 2016. While new vehicle sales are the biggest contributor to the Company's revenue, the largest contributor to profitability comes from parts, service and collision repair, making the number of service bays an important factor. The Company had 977 service bays at the end of the second quarter, 79 more than a year ago.

The Company now has 47 stores it counts as same store dealerships, up from 27 one year ago, and they reported a 0.1% increase in revenues and total vehicles retailed over the same quarter last year.

Our Performance

Sales, Gross Profit & Net Earnings

The Company reported an increase in sales, gross profit and net earnings in the second quarter of 2017. Revenue was up 6.3% compared to the second quarter of 2016. Gross profit increased 6.8% this quarter and was 16.1% of revenue, the same as 2016. Operating expenses as a percentage of gross profit declined to 78.5% compared with 80.1% over the same period last year.

While the Company continues to diversify its operations by entering or expanding its presence in a number of markets, 58% of its revenue was earned from dealerships in Alberta and BC, where revenues increased 3.3% in the quarter. The Company saw revenue increases in all other jurisdictions, with the exception of Saskatchewan (decline of 4.5%) and the Atlantic (decline of 14.2%).

New Vehicles

The Company sold 1,331 more new vehicles in the second quarter this year compared to last year (an increase of 11.0%). While the Company saw its Fiat Chrysler Automobiles ("FCA") revenue decline 3.2% this quarter, the Company's General Motors' dealerships had an increase in revenue of 4.5%, to go with an increase in revenue from the Company's import and luxury brands of 19.6%, a result of the Company's continued diversification.

Used Vehicles

The $25.1 million year-over-year decrease in revenue in the quarter from used vehicles is due to a quarterly decline in used vehicle units sold of 266, and a decrease in revenue per unit of $2,908 compared to the same period of the prior year.

The $39.8 million year-over-year decrease in revenue for the six-month period ended June 30 from used vehicles is due to a decline in used vehicle units sold of 518, and a decrease in revenue per unit of $2,076 compared to the same period of the prior year.

Finance Insurance and Other

While finance and insurance products are also sold with used retail vehicles, finance and insurance products are largely sold in conjunction with new retail vehicles. The quarterly year-over-year finance,

[1] DesRosiers Automotive Consultants Inc.

insurance and other revenue increased by 6.6% while new retail vehicle units sold increased by 12.5%. Finance and insurance revenue per retail vehicle sold has increased by 0.6%, or $14, to $2,524 in the quarter, from $2,510 in the same period in the prior year.

The year-over-year finance, insurance and other revenue for the six-month period ended June 30 increased by 4.4% while new retail vehicle units sold increased by 5.1%. Finance and insurance revenue per retail vehicle sold has increased by 3.2%, or $78, to $2,552 in the quarter, from $2,474 in the same period in the prior year.

Parts, Service and Collision Repairs

The increase in revenue in the quarter from parts, service and collision repair is due to a quarterly increase in repair orders of 1,426, and by a quarterly increase in revenue per order of $57 compared to the same period of the prior year. The Company completed 229 thousand service and collision repair orders, up from 227 thousand last year. The number of service bays increased to 977 from 898.

The increase in revenue for the six-month period ended June 30 from parts, service and collision repair is due to an increase in revenue per order of $34, offset by a decrease in repair orders of 10,699 compared to the same period of the prior year.

Operating expenses

Operating expenses were $112.9 million in the quarter, up 4.6% over last year. Since many operating expenses are variable in nature, Management considers operating expenses as a percentage of gross profit to be a good indicator of expense control. Operating expenses as a percentage of gross profit declined to 78.5% compared with 80.1% over the same period last year.

Working Capital

We prudently analyze and manage our costs carefully and look for opportunities to further improve our operating efficiencies. We negotiated a new debt covenant in the second quarter, consistent with other credit facilities, to provide greater flexibility in managing our balance sheet. Under the Syndicated Floorplan, the Current Ratio Covenant has decreased from 1.10 to 1.05. At the end of Q2, our Current Liabilities for the covenant calculation are $410.3 million, meaning current assets can now be reduced by $20.5 million under the covenant, versus what they were previously.

Growth

We continuously monitor our strategic objectives and have a five-year capital plan set at $124.7 million, through to the end of fiscal 2021. Dealership relocations, renovation projects, and Open Point opportunities are prudently considered against our overall growth strategy. We allocate capital to improve existing stores in conjunction with manufacturers' brand image programs and our ability to maximize vehicle sales and service in our market areas.

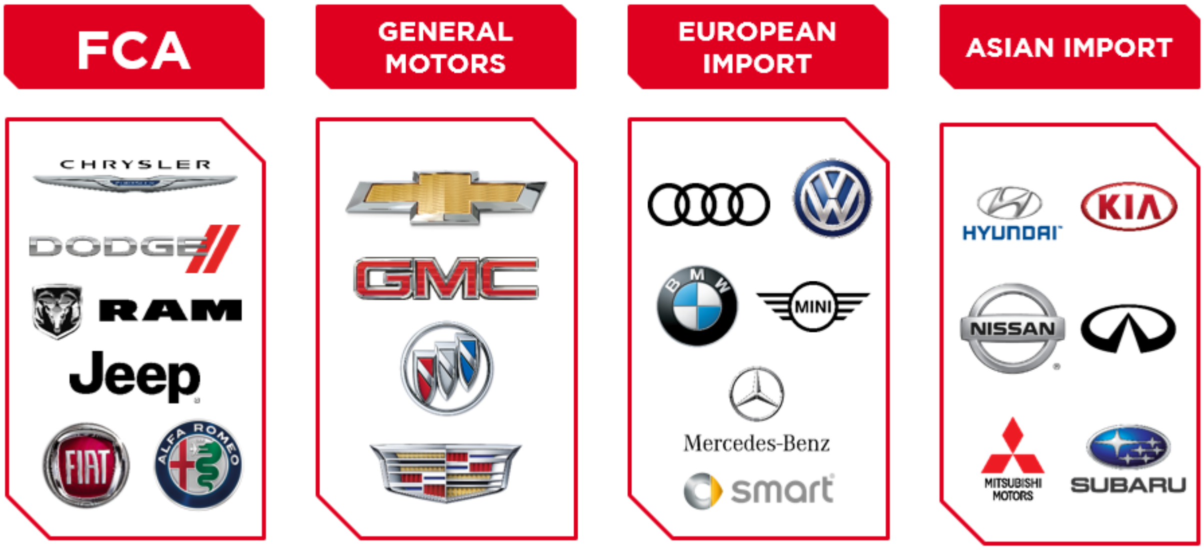
By the end of the second quarter, we invested $10.3 million in dealership relocations and expansions of a planned $29.9 million investment this year. The Company has identified approximately $65.3 million in capital costs that it may incur in order to expand or renovate various current locations through to the beginning of 2021.

We intend to continue to acquire dealerships that broaden our brand representations as well as meet our goal of greater geographical diversification.

Acquisitions

Our acquisition strategy continues to focus on diversifying across Canada through the addition of flagship stores in major markets. Our target acquisitions are not only evaluated in terms of accretion but also for how they will advance our Company, unit sales volumes, and market share. Our ability to generate strong cash flow is a key element in our acquisition plan.

In the second quarter, the Company acquired all of the issued and outstanding shares of Mercedes-Benz Rive-Sud, a dealership which has operated in the greater Montreal region for close to 50 years. The acquisition brings AutoCanada's dealership count to 57 and expands our brand offering to 22.



3. OUTLOOK

New vehicle sales are on track to set a record in Canada this year as the economy, business investment and historically low interest rates all contribute to the positive outlook. Sales exceeded one million units for the first time ever in the first half of the year and, despite the Bank of Canada raising its overnight rate in July, the contributing factors for January to June performance are expected to continue throughout the balance of the year, fueling a strong second half of sales.

While the macro climate bodes well for AutoCanada, the Company's new vehicle sales do not always mirror the national trends. This is in part owing to the current geographical over-weighting in western Canada (and particularly Alberta) and in part due to the brand mix not being a direct comparable to the brand mix in national sales. It is for both of these reasons that the Company continues to pursue its dual diversification strategy of broadening its geographical footprint while expanding the number of brands offered.

The Company also continues to look to enhance its used vehicle sales, its parts, service and collision repair business and its sales of financing and insurance products, each of which contributes to the total revenue and profitability of AutoCanada. The improvement in new vehicle sales often leads to improvements in each of these other parts of the Company's business.

We remain keenly focused on making further progress on integration, continuous improvements in efficiencies and deepening our IT and analytical capabilities across AutoCanada's network of dealerships and at the corporate office. Acquiring new dealerships and effectively integrating them is key to our long-term success. Same store results, reflecting the performance of dealerships that have been owned for at least two full years since acquisition or opening, is an important metric to assess how well we are doing at integration. Same store sales saw a slight uptick in the second quarter, with revenue up 0.1% and gross profit up 1.1%. Since the end of the second quarter last year, twenty stores have transitioned into our same store count, leaving only ten stores not yet part of the count. Only one new store will be added to the same-store category in each of the next two quarters, so while cost control will continue to be an important focus for the Company, integrating new stores is not expected to have as much of an impact on the Company's performance in the near term.

Dealership relocations and expansions are important steps to provide long-term earnings sustainability and improvements in overall profitability for growing locations. Our capital expenditure on relocations and expansions in 2017 continue on track. By the end of the second quarter, we invested $10.3 million in dealership relocations and expansions of a planned $29.9 million investment this year. The Company has identified approximately $65.3 million in capital costs that it may incur in order to expand or renovate various current locations through to the end of 2021. Our five-year total capital plan is $124.7 million for contemplated future capital projects.

4. MARKET

The Company's geographical profile is illustrated below by the number of dealerships, revenues and gross profit by province for the three month periods ended June 30, 2017 and June 30, 2016.

	June 30, 2017					
Location of Dealerships	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**	**Gross Profit**	**Gross Profit % of Total**
British Columbia	13	11	184,639	20%	27,397	19%
Alberta	28	25	340,580	38%	59,591	42%
Saskatchewan	4	4	67,149	8%	12,193	8%
Manitoba	4	4	52,165	6%	9,270	6%
Ontario	9	8	80,442	9%	12,425	9%
Quebec	5	3	120,837	14%	16,907	12%
Atlantic	2	2	49,090	5%	6,040	4%
Total	65	57	894,902	100%	143,823	100%

(1) *"Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.*

	June 30, 2016					
Location of Dealerships	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**	**Gross Profit**	**Gross Profit % of Total**
British Columbia	13	11	168,203	20%	25,393	19%
Alberta	27	24	340,286	40%	57,650	43%
Saskatchewan	4	4	70,281	8%	13,929	10%
Manitoba	4	4	50,009	6%	9,239	7%
Ontario	6	6	55,227	7%	7,763	6%
Quebec	4	2	101,055	12%	14,106	10%
Atlantic	2	2	57,196	7%	6,622	5%
Total	60	53	842,257	100%	134,702	100%

(1) *"Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.*

The Company's manufacturers profile is illustrated below by number of dealerships and revenues by manufacturer for the three month periods ended June 30, 2017 and June 30, 2016.

	June 30, 2017				June 30, 2016			
Manufacturer	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**	**Number of Franchises[1]**	**Number of Dealerships[1]**	**Revenue**	**Revenue % of Total**
FCA	23	17	371,337	41%	21	16	383,457	45%
General Motors	9	9	174,339	19%	9	9	166,812	20%
Hyundai	9	9	59,098	7%	8	8	62,695	7%
Nissan / Infiniti	7	7	88,343	10%	7	7	64,799	8%
Volkswagen / Audi	8	8	67,692	8%	7	7	51,970	6%
BMW / MINI	4	2	103,863	12%	4	2	101,055	12%
Other	5	5	30,230	3%	4	4	11,469	2%
Total	65	57	894,902	100%	60	53	842,257	100%

(1) *"Dealerships" refers to each physical storefront while "Franchises" refers to each separate franchise agreement.*

Performance vs. the Canadian New Vehicle Market

The Canadian automotive retail sector year-to-date has increased 5.0% compared to the prior year. New light vehicle sales in Alberta for the year-to-date were up 13.0% and up 7.5% in British Columbia, when compared to the same period last year.

The Company's same stores unit sales of new vehicles was up 4.8% in the quarter and revenues increased 6.3%. Total vehicles retailed (including new and used retailed vehicles) were flat at 13,325. Same stores finance and insurance revenue was up 3.2% this quarter over 2016 and parts, service and collision repair revenue was up 5.2% in the quarter.

The following table summarizes Canadian new light vehicle sales for the six month periods ended June 30 by province:

June Year to Date Canadian New Vehicle Sales by Province[1,2]

	June 30, 2017	June 30, 2016	Percent Change	Unit Change
British Columbia	119,010	110,737	7.5%	8,273
Alberta	124,682	110,379	13.0%	14,303
Saskatchewan	27,816	24,792	12.2%	3,024
Manitoba	29,944	27,347	9.5%	2,597
Ontario	428,495	407,847	5.1%	20,648
Quebec	235,512	234,482	0.4%	1,030
Atlantic	73,609	73,798	(0.3%)	(189)
Total	1,039,068	989,382	5.0%	49,686

(1) *DesRosiers Automotive Consultants Inc.*
(2) *Readers are cautioned that the above table includes sales channels that the Company does not fully participate in such as daily rentals, and small and medium size leasing companies that are not part of the franchise dealership network.*

June Year to Date Canadian New Vehicle Sales by Brand[3,4]

	June 30, 2017	June 30, 2016	Percent Change	Unit Change
Audi	18,204	15,614	16.6%	2,590
BMW	18,830	18,686	0.8%	144
FCA	151,574	152,439	(0.6%)	(865)
General Motors	150,496	130,202	15.6%	20,294
Hyundai	66,879	72,625	(7.9)%	(5,746)
Infiniti	6,140	5,679	8.1%	461
Kia	36,734	36,318	1.1%	416
Mercedes-Benz	26,290	23,487	11.9%	2,803
MINI	3,312	3,191	3.8%	121
Mitsubishi	11,290	11,538	(2.1)%	(248)
Nissan	68,796	63,822	7.8%	4,974
Subaru	26,433	23,915	10.5%	2,518
Volkswagen	28,366	31,722	(10.6)%	(3,356)
Total – AutoCanada Brands	613,344	589,238	4.1%	24,106
Other – Non-AutoCanada Brands	425,724	400,144	6.4%	25,580
Total	1,039,068	989,382	5.0%	49,686

(3) *DesRosiers Automotive Consultants Inc.*
(4) *Readers are cautioned that the above table includes sales channels that the Company does not fully participate in such as daily rentals, and small and medium size leasing companies that are not part of the franchise dealership network.*

List of Dealerships

The following table sets forth the dealerships that we currently own and operate and the date opened or acquired by the Company or its predecessors, organized by location.

Location	Operating Name	Franchise	Year Opened or Acquired	Same Stores[1]	Owned or Leased[2]
Wholly-Owned Dealerships:					
Abbotsford, BC	Abbotsford Volkswagen	Volkswagen	2011	Y	Leased
Chilliwack, BC	Chilliwack Volkswagen	Volkswagen	2011	Y	Owned
Kelowna, BC	Okanagan Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Maple Ridge, BC	Maple Ridge Chrysler Jeep Dodge FIAT	FCA	2005	Y	Leased
Maple Ridge, BC	Maple Ridge Volkswagen	Volkswagen	2008	Y	Leased
Prince George, BC	Northland Chrysler Jeep Dodge	FCA	2002	Y	Owned
Prince George, BC	Northland Hyundai	Hyundai	2005	Y	Owned
Prince George, BC	Northland Nissan	Nissan	2007	Y	Owned
Victoria, BC	Victoria Hyundai	Hyundai	2006	Y	Owned
Airdrie, AB	Airdrie Chrysler Jeep Dodge Ram	FCA	2015	Q3 2017	Leased
Calgary, AB	Courtesy Chrysler Dodge	FCA	2013	Y	Leased
Calgary, AB	Calgary Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Crowfoot Hyundai	Hyundai	2014	Y	Leased
Calgary, AB	Courtesy Mitsubishi	Mitsubishi	2014	Y	Leased
Calgary, AB	Northland Volkswagen	Volkswagen	2014	Y	Leased
Calgary, AB	Fish Creek Nissan	Nissan	2014	Y	Leased
Calgary, AB	Hyatt Infiniti	Infiniti	2014	Y	Leased
Calgary, AB	Tower Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Edmonton, AB	Crosstown Chrysler Jeep Dodge FIAT	FCA	1994	Y	Leased
Edmonton, AB	Capital Chrysler Jeep Dodge FIAT	FCA	2003	Y	Leased
Edmonton, AB	North Edmonton Kia	Kia	2014	Y	Owned
Grande Prairie, AB	Grande Prairie Chrysler Jeep Dodge FIAT	FCA	1998	Y	Owned
Grande Prairie, AB	Grande Prairie Hyundai	Hyundai	2005	Y	Owned
Grande Prairie, AB	Grande Prairie Subaru	Subaru	1998	Y	Owned
Grande Prairie, AB	Grande Prairie Mitsubishi	Mitsubishi	2007	Y	Owned
Grande Prairie, AB	Grande Prairie Nissan	Nissan	2007	Y	Owned
Grande Prairie, AB	Grande Prairie Volkswagen	Volkswagen	2013	Y	Owned
Ponoka, AB	Ponoka Chrysler Jeep Dodge	FCA	1998	Y	Owned
Sherwood Park, AB	Sherwood Park Hyundai	Hyundai	2006	Y	Owned
Sherwood Park, AB	Sherwood Park Volkswagen	Volkswagen	2017	Q2 2019	Owned
Saskatoon, SK	Dodge City Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Winnipeg, MB	Audi Winnipeg	Audi	2013	Y	Owned
Winnipeg, MB	St. James Volkswagen	Volkswagen	2013	Y	Owned
Winnipeg, MB	Eastern Chrysler Jeep Dodge	FCA	2014	Y	Owned
Cambridge, ON	Cambridge Hyundai	Hyundai	2008	Y	Owned
Mississauga, ON	401 Dixie Hyundai	Hyundai	2008	Y	Leased
Guelph, ON	Guelph Hyundai	Hyundai	2016	Q1 2019	Owned
Guelph, ON	Wellington Motors	FCA	2016	Q1 2019	Owned
Toronto, ON	Toronto Chrysler Jeep Dodge Ram	FCA	2014	Y	Leased
Montreal, QC	Mercedes-Benz Rive-Sud[4]	Mercedes-Benz	2017	Q2 2019	Leased
Moncton, NB	Moncton Chrysler Jeep Dodge	FCA	2001	Y	Owned
Dartmouth, NS	Dartmouth Chrysler Jeep Dodge	FCA	2006	Y	Leased

Equity Investments:

Duncan, BC	Island Chevrolet Buick GMC	General Motors	2013	Y	Leased
Kelowna, BC	Kelowna Chevrolet	General Motors	2015	Q4 2017	Owned
Edmonton, AB	Lakewood Chevrolet	General Motors	2014	Y	Owned
Sherwood Park, AB	Sherwood Park Chevrolet	General Motors	2012	Y	Leased
Sherwood Park, AB	Sherwood Buick GMC	General Motors	2012	Y	Leased
Spruce Grove, AB	Grove Dodge Chrysler Jeep	FCA	2015	Q1 2018	Leased
North Battleford, SK	Bridges Chevrolet Buick GMC	General Motors	2014	Y	Owned
Prince Albert, SK	Mann-Northway Auto Source	General Motors	2014	Y	Leased
Saskatoon, SK	Saskatoon Motor Products	General Motors	2014	Y	Leased
Winnipeg, MB	McNaught Cadillac Buick GMC	General Motors	2014	Y	Owned
Laval, QC	BMW Laval and MINI Laval	BMW / MINI	2014	Y	Owned
Montreal, QC	BMW Canbec and MINI Mont Royal	BMW / MINI	2014	Y	Leased
Ottawa, ON	Hunt Club Nissan	Nissan	2015	Q1 2018	Leased
Ottawa, ON	417 Nissan	Nissan	2015	Q1 2018	Leased
Ottawa, ON	417 Infiniti	Infiniti	2015	Q1 2018	Leased

Dealership Loan Financing:

Edmonton, AB	Southview Acura[3]	Acura	2016	N/A	Owned
Whitby, ON	Whitby Oshawa Honda[3]	Honda	2015	N/A	Leased

(1) *Same stores (indicated with the letter "Y" in the table above) means the franchised automobile dealership has been owned for at least 2 full years since acquisition. The dealership is then included in the quarter thereafter, for Same Stores analysis.*
(2) *This column summarizes whether the dealership property is owned or leased.*
(3) *For further detail on dealership loan financing, refer to "LIQUIDITY AND CAPITAL RESOURCES" section under Related Party Transactions.*
(4) *On May 1, 2017, the Company acquired shares of Mercedes-Benz Rive-Sud. See "ACQUISITIONS, RELOCATIONS, AND REAL ESTATE" for more information related to this dealership acquisition.*

5. SELECTED QUARTERLY FINANCIAL INFORMATION

The following table shows the unaudited results of the Company for each of the eight most recently completed quarters. The results of operations for these periods are not necessarily indicative of the results of operations to be expected in any given comparable period.

(in thousands of dollars, except Gross Profit %, Earnings per share, and Operating Data)	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Income Statement Data								
New vehicles	558,682	353,540	348,107	444,482	497,025	363,181	368,242	471,018
Used vehicles	182,913	165,408	157,724	179,582	208,016	180,108	167,100	179,270
Parts, service and collision repair	113,983	90,735	92,310	95,585	100,317	94,721	102,220	93,139
Finance, insurance and other	39,324	29,344	31,133	33,529	36,899	28,862	34,752	37,778
Revenue	894,902	639,027	629,274	753,178	842,257	666,872	672,314	781,205
New vehicles	38,555	25,590	25,042	31,578	34,410	27,267	27,482	34,300
Used vehicles	13,095	11,940	10,064	12,950	13,758	10,420	10,326	10,949
Parts, service and collision repair	56,306	47,284	52,957	47,676	52,957	47,669	51,760	48,336
Finance, insurance and other	35,867	26,813	28,722	30,733	33,577	26,353	34,354	35,088
Gross profit	143,823	111,627	116,785	122,937	134,702	111,709	123,922	128,673
Gross Profit %	16.1%	17.5%	18.6%	16.3%	16.0%	16.8%	18.4%	16.5%
Operating expenses	112,897	98,170	97,397	99,041	107,932	96,047	101,310	100,824
Operating expenses as a % of gross profit	78.5%	87.9%	83.4%	80.6%	80.1%	86.0%	81.8%	78.4%
Net earnings (loss)[2,5]	24,978	3,678	13,785	(32,619)	14,158	7,272	(7,361)	11,690
Adjusted net earnings[2,5,6]	15,547	4,602	7,536	10,327	15,523	6,253	8,610	12,535
EBITDA[2,5]	43,683	14,136	25,260	23,842	27,072	18,312	23,353	26,379
EBITDA as a % of Sales[2,5]	4.8%	2.7%	4.5%	3.6%	3.7%	3.2%	3.5%	3.8%
Free cash flow[2]	10,982	621	23,424	30,897	37,922	4,045	9,066	14,995
Adjusted free cash flow[2]	36,277	15,217	13,133	27,766	21,632	6,035	8,078	18,951
Basic earnings (loss) per share	0.91	0.13	0.50	(1.19)	0.53	0.27	(0.29)	0.48
Diluted earnings (loss) per share	0.91	0.13	0.50	(1.19)	0.53	0.27	(0.29)	0.47
Basic adjusted earnings per share[2,6]	0.57	0.17	0.28	0.38	0.57	0.23	0.34	0.51
Diluted adjusted earnings per share[2,6]	0.57	0.17	0.27	0.38	0.57	0.23	0.34	0.51
Operating Data								
Vehicles (new and used) sold[3]	18,490	13,055	12,912	15,955	17,425	13,301	14,150	17,086
New vehicles sold[3]	13,429	8,508	8,449	10,983	12,098	8,502	9,210	12,018
New retail vehicles sold[3]	10,545	6,753	7,590	8,949	9,374	7,078	8,016	9,985
New fleet vehicles sold[3]	2,884	1,755	859	2,034	2,724	1,424	1,194	2,033
Used retail vehicles sold[3]	5,061	4,547	4,463	4,972	5,327	4,799	4,940	5,068
# of service/collision repair orders completed[3]	228,872	197,069	217,418	209,912	227,446	209,194	230,772	202,692
Absorption rate[2]	87%	82%	86%	89%	90%	83%	93%	91%
# of dealerships at period end	57	56	55	53	53	53	54	50
# of same stores dealerships	47	47	44	33	27	27	28	26
# of service bays at period end	977	949	928	898	898	898	912	862
Same stores revenue growth[1]	0.1%	(7.1)%	(10.0)%	(9.2)%	(3.2)%	(3.1)%	(12.1)%	(6.9)%
Same stores gross profit growth[1]	1.1%	(1.2)%	(5.8)%	(11.0)%	(5.3)%	(5.5)%	(14.3)%	(14.1)%

(1) *Same stores revenue growth and Same stores gross profit growth is calculated using franchised automobile dealerships that we have owned for at least 2 full years, which includes the GM Stores, as these stores have been treated as acquisitions as at July 11, 2014. Same store growth is in comparison with the same quarter in the prior year.*

(2) *These financial measures have been calculated as described under "NON-GAAP MEASURES".*

(3) *This number includes 100% of vehicles and service and collision repair orders sold by these dealerships in which we have less than 100% investment.*

(4) *The results from operations have historically been lower in the first and fourth quarters of each year, largely due to consumer purchasing patterns during the holiday season, inclement weather and the reduced number of business days during the holiday season. As a result, our financial performance is generally not as strong during the first and fourth quarters than during the other quarters of each fiscal year. The timing of acquisitions may have also caused significant fluctuations in operating results from quarter to quarter.*

(5) *Represents the portion attributable to AutoCanada Shareholders.*

(6) *In Q1 2017, the Company redefined the calculation of adjusted net earnings. As a result, the values presented for Q1 2016 and Q2 2016 have been restated as presented above.*

6. RESULTS OF OPERATIONS

Second Quarter Operating Results

EBITDA attributable to AutoCanada shareholders for the three month period ended June 30, 2017 increased by $16.6 million or 61.4% to $43.7 million, from $27.1 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA attributable to AutoCanada shareholders for the quarter is mainly due to the non-recurring settlement income recorded in the period. Adjusted EBITDA attributable to AutoCanada shareholders for the quarter ended June 30, 2017 increased by $1.7 million or 5.7% from $29.1 million to $30.7 million when compared to the same quarter in the prior year, mainly attributable to an increase in new vehicle gross profit.

The following table illustrates EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the three month period ended June 30, for the last three years of operations:

(in thousands of dollars)	2017	2016	2015
Period from April 1 to June 30			
Net earnings attributable to AutoCanada shareholders	24,978	14,158	13,523
Income taxes[2]	9,254	4,238	5,534
Depreciation of property and equipment[2]	4,831	4,536	4,230
Interest on long-term indebtedness[2]	4,620	4,140	4,110
EBITDA attributable to AutoCanada shareholders[1]	43,683	27,072	27,397
Add back:			
Share-based compensation attributed to changes in share price	254	59	133
Revaluation of redemption liabilities	139	(736)	336
Unrealized gain on embedded derivative	-	-	(167)
Non-recurring management transition cost	-	2,700	-
Non-recurring settlement income	(13,328)	-	-
Adjusted EBITDA attributable to AutoCanada shareholders[1]	30,748	29,095	27,699

(1) *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*
(2) *Represents the portion attributable to AutoCanada shareholders.*

Pre-tax earnings attributable to AutoCanada shareholders increased by $15.8 million or 86.1% to $34.2 million for the quarter from $18.4 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders increased by $10.8 million or 76.4% to $25.0 million in the second quarter of 2017 from 14.2 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders increased by $5.0 million to $9.3 million in the second quarter of 2017 from $4.2 million in the same period of 2016.

Adjusted net earnings attributable to AutoCanada shareholders stayed constant at $15.5 million for the quarter compared to the same period of the prior year.

The following table reconciles net earnings to adjusted net earnings for the three month period ended June 30, for the last three years of operations:

(in thousands of dollars)	2017	2016	2015
Period from April 1 to June 30			
Net earnings attributable to AutoCanada shareholders	24,978	14,158	13,523
Add back:			
Share-based compensation attributed to changes in share price, net of tax	186	44	98
Revaluation of redemption liabilities	139	(736)	336
Non-recurring management transition cost	-	2,057	-
Non-recurring settlement income, net of tax	(9,756)	-	-
Adjusted net earnings attributable to AutoCanada shareholders[1]	15,547	15,523	13,957
Weighted average number of shares - Basic	27,378,919	27,338,767	24,424,598
Weighted average number of shares - Diluted	27,437,830	27,457,284	24,486,877
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	0.57	0.57	0.57
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	0.57	0.57	0.57

(1) *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

Year to Date Operating Results

EBITDA attributable to AutoCanada shareholders for the six month period ended June 30, 2017 increased by $12.4 million or 27.4% to $57.8 million, from $45.4 million when compared to the results of the Company for the same period in the prior year. The increase in EBITDA attributable to AutoCanada shareholders for the quarter is mainly attributable to increases in new vehicle and parts, service and collision repair gross profit. Adjusted EBITDA attributable to AutoCanada shareholders for the six month period ended June 30, 2017 decreased by $2.5 million or 5.1% from $48.7 million to $46.3 million when compared to the same quarter in the prior year.

The following table illustrates EBITDA and adjusted EBITDA attributable to AutoCanada shareholders for the six month period ended June 30, for the last three years of operations:

(in thousands of dollars)	2017	2016	2015
Period from January 1 to June 30			
Net earnings attributable to AutoCanada shareholders	28,656	21,430	18,492
Income taxes[2]	10,504	6,714	7,243
Depreciation of property and equipment[2]	9,428	9,223	8,163
Interest on long-term indebtedness[2]	9,233	8,016	6,189
EBITDA attributable to AutoCanada shareholders[1]	57,821	45,383	40,087
Add back:			
Share-based compensation attributed to changes in share price	258	118	(197)
Revaluation of redemption liabilities	(171)	526	659
Unrealized gain on embedded derivative	-	20	47
Non-recurring settlement income	(13,328)	-	-
Non-recurring management transition cost	1,684	2,700	-
Adjusted EBITDA attributable to AutoCanada shareholders[1]	46,264	48,747	40,596

(1) *This financial measure is identified and defined under the section "NON-GAAP MEASURES"*
(2) *Represents the portion attributable to AutoCanada shareholders.*

For the six month period ended June 30, 2017, pre-tax earnings attributable to AutoCanada shareholders increased by $11.0 million or 39.1% to $39.2 million from $28.1 million in the same period of the prior year. Net earnings attributable to AutoCanada shareholders increased by $7.2 million or 33.7% to $28.7 million in the six month period ended June 30, 2017 from $21.4 million when compared to the prior year. Income tax expense attributable to AutoCanada shareholders increased by $3.8 million to $10.5 million in the six month period ended June 30, 2017 from $6.7 million in the same period of 2016.

The following table reconciles net earnings to adjusted net earnings for the six month period ended June 30, for the last three years of operations:

(in thousands of dollars)	2017	2016	2015
Period from January 1 to June 30			
Net earnings attributable to AutoCanada shareholders	28,656	21,430	18,492
Add back:			
Share-based compensation attributed to changes in share price, net of tax	189	87	(147)
Revaluation of redemption liabilities	(171)	526	659
Unrealized gain on embedded derivative	-	20	47
Non-recurring settlement income, net of tax	(9,756)	-	-
Non-recurring management transition cost, net of tax	1,231	2,057	-
Adjusted net earnings attributable to AutoCanada shareholders[1]	20,149	24,120	19,051
Weighted average number of shares - Basic	27,368,898	27,350,603	24,417,128
Weighted average number of shares - Diluted	27,476,315	27,439,896	24,489,827
Adjusted net earnings per share attributable to AutoCanada shareholders - Basic[1]	0.74	0.88	0.78
Adjusted net earnings per share attributable to AutoCanada shareholders - Diluted[1]	0.73	0.88	0.78

(3) *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

Revenues

The following table summarizes revenue for the three month periods and six month periods ended June 30:

	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
New vehicles	558,682	497,025	61,657	912,222	860,205	52,017
Used vehicles	182,913	208,016	(25,103)	348,321	388,124	(39,803)
Finance, insurance and other	39,324	36,899	2,425	68,668	65,761	2,907
Parts, service and collision repair	113,983	100,317	13,666	204,718	195,038	9,680
Total Revenue	894,902	842,257	52,645	1,533,929	1,509,128	24,801

New vehicles

The $61.7 million year-over-year increase in revenue in the quarter from new vehicles is due to a quarterly increase in new vehicles sold of 1,331 and an increase in revenue per unit of $520 compared to the same period of the prior year.

The $52.0 million year-over-year increase in revenue for the six month period ended June 30 from new vehicles is due to an increase in new vehicles sold of 1,337, offset by a decrease in revenue per unit of $174 compared to the same period of the prior year

Used vehicles

The $25.1 million year-over-year decrease in revenue in the quarter from used vehicles is due to a quarterly decline in used vehicles sold of 266 and a decrease in revenue per unit of $2,907 compared to the same period of the prior year.

The $39.8 million year-over-year decrease in revenue for the six month period ended June 30 from used vehicles is due to a decrease in used vehicles sold of 518, and a decrease in revenue per unit of $2,076 compared to the same period of the prior year

Finance, insurance and other

While finance and insurance products are also sold with used retail vehicles, finance and insurance products are largely sold in conjunction with new retail vehicles. The quarterly year-over-year finance, insurance and other revenue increased by 6.6% while new retail vehicle units sold increased by 12.5%. Finance and insurance revenue per vehicle sold has increased by 0.6% or $14, to $2,524 in the quarter, from $2,510 in the same period of the prior year.

The year-over-year finance, insurance and other revenue for the six month period ended June 30 increased by 4.4% while new retail vehicle units sold increased by 5.1%. Finance and insurance revenue per vehicle sold has increased by 3.2%, or $78, to $2,552 in the quarter, from $2,474 in the same period in the prior year.

Parts, service and collision repair

The increase in revenue in the quarter from parts, service and collision repair is due to a quarterly increase in repair orders of 1,426, and by a quarterly increase in revenue per order of $57 compared to the same period of the prior year.

The increase in revenue for the six month period ended June 30 from parts, service and collision repair is due to an increase in revenue per order of $34, offset by a decrease in repair orders of 10,699 compared to the same period of the prior year.

Gross Profit

The following table summarizes gross profit for the three month periods and six month periods ended June 30:

	Three months ended June 30			**Six months ended June 30**		
(in thousands of dollars)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
New vehicles	38,555	34,410	4,145	64,145	61,675	2,470
Used vehicles	13,095	13,758	(663)	25,035	24,178	857
Finance, insurance and other	35,867	33,577	2,290	62,680	59,932	2,748
Parts, service and collision repair	56,306	52,957	3,349	103,590	100,626	2,964
Total Revenue	143,823	134,702	9,121	255,450	246,411	9,039

New vehicles

The $4.1 million year-over-year increase in gross profit in the quarter from new vehicles is due to a quarterly increase in new vehicles sold of 1,331, and a quarterly increase in gross profit per unit of $25, compared to the same period of the prior year.

The $2.5 million year-over-year increase in gross profit for the six month period ended June 30 from new vehicles is due to an increase in new vehicles sold of 1,337, offset by a decreased in gross profit per unit of $71, compared to the same period of the prior year.

Used vehicles

The $0.7 million year-over-year decrease in gross profit in the quarter from used vehicles is due to a quarterly decline in used vehicles sold of 266, offset by an increased gross profit per unit of $5 compared to the same period of the prior year.

The $0.9 million year-over-year increase in gross profit for the six month period ended June 30 from used vehicles is due to an increased gross profit per unit of $218, offset by a decline in used vehicles sold of 518 compared to the same period of the prior year.

Finance, insurance and other

Increase in finance, insurance and other is tied to the slight increase in new vehicle unit sales. The quarterly year-over-year finance, insurance and other gross profit increased by 6.8% while new retail vehicle units sold increased by 12.5%. This is also attributable to increased efforts in selling finance and insurance products this quarter. Finance and insurance gross profit per vehicle sold has increased by 0.9%, or $20, to $2,304 in the same period of the prior year.

The year-over-year finance, insurance and other gross profit for the six month period ended June 30 increased by 4.6% while new retail vehicle units sold increased by 5.1%. This is also attributable to increased efforts in selling finance and insurance products. Finance and insurance gross profit per vehicle sold has increased by 3.3%, or $75, to $2,330, from $2,255 in the same period of the prior year.

Parts, service and collision repair

The increase in gross profit in the quarter from parts, service and collision repair is due to a quarerly increase in repair orders of 1,426, and an increase in gross profit per order of $13 compared to the same period of the prior year.

The increase in gross profit for the six month period ended June 30 from parts, service and collision repair is due to an increase in gross profit per order of $13, offset by a decrease in repair orders of 10,699 compared to the same period of the prior year.

Operating Expenses

Operating costs consist of four major categories:

Employee costs

Employee costs are the costs associated with employing staff both at the dealerships and at AutoCanada's head office. Dealership employees are largely commission based, resulting in employee costs being largely variable in nature. Our dealership pay structures are tied to meeting sales objectives, maintaining customer satisfaction indices, as well as improving gross profit and net income.

Administrative costs

Administrative costs comprise the remaining costs of running our dealerships. Advertising, utilities, service shop consumables, information processing, insurance, and consulting costs comprise a significant portion of the administrative costs. Administrative costs can be either fixed or variable in nature. The Company also operates a centralized marketing department and information technology department, both of which provide services to the dealerships to leverage the size of the group as a means to lower the operating costs of the dealerships.

Facility lease costs

Facility lease costs relate to the cost of leasing dealership facilities not owned by AutoCanada. Facility lease costs are fixed in nature as lease contracts are based on the market value of the property and are long-term.

Depreciation of property and equipment

Depreciation of property and equipment relates to the depreciation of the dealership assets including buildings, machinery and equipment, leasehold improvements, company and lease vehicles, furniture, and computer hardware. Depreciation rates vary based on the nature of the asset.

Since many operating expenses are variable in nature, Management considers operating expenses as a percentage of gross profit to be a good indicator of expense control.

The following table summarizes operating expenses as a percentage of gross profit, broken into their fixed and variable components. Fixed expenses are costs that do not fluctuate with changes in sales volume while variable expenses are costs that vary depending on sales volume.

Operating expenses as a % of Gross Profit	Three months ended June 30			Six months ended June 30		
	2017	**2016**	**Change**	**2017**	**2016**	**Change**
Employee costs before management transition costs	50.2%	48.6%	1.6%	51.5%	50.5%	1.0%
Management transition costs	-%	2.0%	(2.0)%	0.6%	1.1%	(0.5)%
Administrative costs - variable	16.2%	16.3%	(0.1)%	17.0%	17.2%	(0.2)%
Total variable expenses	66.4%	66.9%	(0.5)%	69.1%	68.8%	0.3%
Administrative costs - fixed	4.5%	5.2%	(0.7)%	5.1%	5.2%	(0.1)%
Facility lease costs	4.1%	4.4%	(0.3)%	4.5%	4.8%	(0.3)%
Depreciation of property and equipment	3.5%	3.6%	(0.1) %	3.9%	4.0%	(0.1)%
Total fixed expenses	12.1%	13.2%	(1.1)%	13.5%	14.0%	(0.5)%
Total operating expenses	78.5%	80.1%	(1.6)%	82.6%	82.8%	(0.2)%

Variable Expenses

Employee costs have decreased in the quarter by 0.4% of operating expenses as a percentage of gross profit. Excluding management transition costs, employee costs have increased by 1.6%, as a percentage of gross profit.

Variable administrative costs decreased by 0.1% for the quarter ended June 30, 2017, as a percentage of gross profit.

For the six month period ended June 30, 2017, employee costs have increased in the quarter by 0.5% of operating expenses as a percentage of gross profit. Excluding management transaction costs, employee cost have increased by 1.0%, as a percentage of gross profit.

For the six month period ended June 30, 2017, variable administrative costs decreased by 0.2% compared to the same period of the prior year, as a percentage of gross profit.

Fixed Expenses

Fixed administrative cost decreased by 0.7% for the quarter, as a percentage of gross profit. Facility lease costs decreased by 0.3% and depreciation of property and equipment decreased by 0.1% for the quarter, as a percentage of gross profit.

For the six month period ended June 30, 2017, fixed administrative costs decreased by 0.1%, facility lease costs decreased by 0.3% and depreciation of property and equipment decreased by 0.1%, as a percentage of gross profit.

Income Taxes

The following table summarizes income taxes for the three month periods and six month periods ended June 30:

	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Current tax	1,272	1,659	(387)	5,759	13,602	(7,843)
Deferred tax (recovery)	8,975	3,496	5,479	6,483	(5,329)	11,812
Total income tax expense	10,247	5,155	5,092	12,242	8,273	3,969

Income tax expense is recognized based on Management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual rates used for the period ended June 30, 2017 was 26.8% (2016 - 26.8%).

Finance Costs

The Company incurs finance costs on its revolving floorplan facilities, long term indebtedness and banking arrangements.

During the three month period ended June 30, 2017, finance costs on our revolving floorplan facilities increased by 14.9% to $3.4 million from $3.0 million in the same period of the prior year, mainly due to the increase in the Company’s revolving floorplan from $582.7 million in Q2 2016 to $624.8 million in Q2 2017. During the six month period ended June 30, 2017, finance costs on our revolving term facilities increase by $0.7 million to 6.7 million from 6.0 million in the same period of the prior year.

Some of our manufacturers provide non-refundable credits on the finance costs for our revolving floorplan facilities to offset the dealership’s cost of inventory that, on average, effectively provide the dealerships with interest-free floorplan financing for the first 45 to 60 days of ownership of each financed vehicle. Floorplan credits are recorded as a reduction in the cost of new vehicle inventory and subsequently a reduction in the cost of sales as vehicles are sold.

Management believes that a comparison of floorplan financing costs to floorplan credits can be used to evaluate the efficiency of our new vehicle sales relative to stocking levels.

The following table details the carrying cost of vehicles based on floorplan interest net of floorplan assistance earned:

	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2017**	**2016**	**Change**	**2017**	**2016**	**Change**
Floorplan financing	3,407	2,965	442	6,702	5,996	706
Floorplan credits earned	(4,680)	(3,931)	(749)	(8,395)	(7,205)	(1,190)
Net carrying cost of vehicle inventory	(1,273)	(966)	(307)	(1,693)	(1,209)	(484)

7. SAME STORES RESULTS

Same stores is defined as a franchised automobile dealership that has been owned for at least two full years since acquisition. The dealership is then included in the quarter thereafter, for same stores analysis. The Company believes that it takes two years for an acquired dealership or Open Point to achieve normal operating results.

The dealerships which have been acquired over the past two years are integrating well into their respective platforms and within the Company. Three dealerships were added to same stores since the start of 2017. We believe that there continues to be opportunities within these dealerships and continue to dedicate significant resources to newly acquired dealerships to successfully integrate acquisitions in an efficient manner. As a result, we expect to incur additional selling and administrative costs in the future to successfully integrate new dealerships into our model.

Number of Same Stores by Province

The following table summarizes the number of same stores for the period ended June 30, 2017 by province:

	British Columbia	Alberta	Saskatchewan	Manitoba	Ontario	Quebec	Atlantic	Total
FCA	3	6	1	1	1	-	2	14
Hyundai	2	4	-	-	2	-	-	8
General Motors	1	3	3	1	-	-	-	8
Volkswagen	3	2	-	1	-	-	-	6
Nissan/Infiniti	1	3	-	-	-	-	-	4
Mitsubishi	-	2	-	-	-	-	-	2
BMW/MINI	-	-	-	-	-	2	-	2
Audi	-	-	-	1	-	-	-	1
Subaru	-	1	-	-	-	-	-	1
KIA	-	1	-	-	-	-	-	1
Total	10	22	4	4	3	2	2	47

Same Stores Revenue and Vehicles Sold

	Three Months Ended June 30			Six Months Ended June 30		
(in thousands of dollars)	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
Revenue Source						
New vehicles - Retail	382,664	358,597	6.7%	634,178	628,907	0.8%
New vehicles - Fleet	98,308	93,749	4.9%	157,118	151,060	4.0%
Total New vehicles	480,972	452,346	6.3%	791,296	779,967	1.5%
Used vehicles - Retail	105,351	122,548	(14.0)	210,024	232,163	(9.5)%
Used vehicles - Wholesale	54,951	71,034	(22.6)	98,939	127,996	(22.7)%
Total Used vehicles	160,302	193,582	(17.2)	308,963	360,159	(14.2)%
Finance, insurance and other	34,764	33,689	3.2%	61,034	60,183	1.4%
Subtotal	676,038	679,617	(0.5%)	1,161,293	1,200,309	(3.3)%
Parts, service and collision repair	95,966	91,240	5.2%	174,062	177,280	(1.8)%
Total	772,004	770,857	0.1%	1,335,355	1,377,589	(3.1)%
New retail vehicles sold (units)	8,914	8,435	5.7%	14,716	14,773	(0.4)%
New fleet vehicles sold (units)	2,618	2,559	2.3%	4,160	3,838	8.4%
Used retail vehicles sold (units)	4,411	4,883	(9.7%)	8,487	9,316	(8.9)%
Total	15,943	15,877	0.4%	27,363	27,927	(2.0)%
Total vehicles retailed (units)	13,325	13,318	0.1%	23,203	24,089	(3.7)%

Revenues - Same Stores Analysis

Same stores revenue increased by $1.1 million or 0.1%, for the three month period ended, and decreased by $42.2 million or 3.1% in the six month period ended June 30, 2017 respectively when compared to the same period in the prior year.

New vehicle revenues increased by $28.6 million or 6.3% for the second quarter of 2017 over the prior year due to an increase new vehicle sales of 538 units or 4.9% and an increase in the average revenue per new vehicle sold of $563 or 1.4%.

Same stores new vehicle revenues increased by $11.3 million or 1.5% for the six month period ended June 30, 2017 over the same period in the prior year due to an increase in new retail vehicle sales of 265 units or 1.4% and an increase in average revenue per new vehicle sold of $12.

Same stores used vehicle revenues decreased by $33.3 million or 17.2% for the three month period ended June 30, 2017 over the same period in the prior year due to a decrease in used retail vehicle sales of 472 units or 9.7% and a decrease in average revenue per new vehicle sold of $3,302 or 8.3%.

For the six month period ended June 30, 2017, used vehicle revenues decreased by $51.2 million or 14.2% due to a decrease in used vehicle sales of 829 units or 8.9%, and a decrease in the average revenue per used vehicle sold of $2,256 or 5.8%.

Same stores parts, service and collision repair revenue increased by $4.7 million or 5.2% for the second quarter of 2017 compared to the prior period and was primarily a result of a $47 or 10.5% increase in the average revenue per repair order completed, offset by a decrease in overall repair orders completed of 9,686.

For the six month period ended June 30, 2017, parts, service and collision repair revenue decreased by $3.2 million or 1.8%, mainly due to a decrease in overall repair orders completed of 25,219, offset by a $22 or 4.8% increase in the average revenue per repair order completed.

Same stores finance, insurance and other revenue increased by $1.1 million or 3.2% for the three month period ended June 30, 2017 over the same period in 2016. This was due to an increase in the average revenue per unit retailed of $84 or 3.3%, offset by a decrease in the number of new and used vehicles retailed of 20 units.

For the six month period ended June 30, 2017, Same Stores finance, insurance and other revenue increased by $0.9 million or 1.4% over the same period in 2016 mainly due to an increase in the average revenue per unit retailed of $132 or 5.3%, offset by a decrease in the number of new and used vehicles retailed of 886 units.

Same Stores Gross Profit and Gross Profit Percentage

The following table summarizes same stores gross profit and gross profit % for the three month periods and six month periods ended:

	For the Three Months Ended June 30				
	Gross Profit			Gross Profit %	
(in thousands of dollars)	**2017**	**2016**	**% Change**	**2017**	**2016**
Revenue Source					
New vehicles - Retail	31,758	29,794	6.6%	8.3%	8.3%
New vehicles - Fleet	1,510	1,736	(13.0)%	1.5%	1.9%
Total New vehicles	33,268	31,530	5.5%	6.9%	7.0%
Used vehicles - Retail	9,833	11,292	(12.9)%	9.3%	9.2%
Used vehicles - Wholesale	1,996	1,190	67.7%	3.6%	1.7%
Total Used vehicles	11,829	12,482	(5.2)%	7.4%	6.4%
Finance, insurance and other	31,495	30,694	2.6%	90.6%	91.1%
Subtotal	76,592	74,706	2.5%	11.3%	11.0%
Parts, service and collision repair	47,886	48,382	(1.0)%	49.9%	53.0%
Total	124,478	123,088	1.1%	16.1%	16.0%

	For the Six Months Ended June 30				
	Gross Profit			Gross Profit %	
(in thousands of dollars)	**2017**	**2016**	**% Change**	**2017**	**2016**
Revenue Source					
New vehicles - Retail	52,943	52,828	0.2%	8.3%	8.4%
New vehicles - Fleet	3,218	3,290	(2.2)%	2.0%	2.2%
Total New vehicles	56,161	56,118	0.1%	7.1%	7.2%
Used vehicles - Retail	19,299	19,928	(3.2)%	9.2%	8.6%
Used vehicles - Wholesale	3,214	2,274	41.3%	3.2%	1.8%
Total Used vehicles	22,513	22,202	1.4%	7.3%	6.2%
Finance, insurance and other	55,385	54,911	0.9%	90.7%	91.2%
Subtotal	134,059	133,231	0.6%	11.5%	11.1%
Parts, service and collision repair	91,333	91,982	(0.7)%	52.5%	51.9%
Total	225,392	225,213	0.1%	16.9%	16.3%

Same stores gross profit increased by $1.4 million or 1.1% in the three month period ended, and increased by $0.2 million or 0.1% in the six month period ended June 30, 2017 respectively when compared to the same period in the prior year.

New vehicle gross profit increased by $1.7 million or 5.5% in the three month period ended June 30, 2017 when compared to 2016 as a result of an increase in new vehicle sales of 538 units or 4.9%, and an increase in the average gross profit per new vehicle sold of $17 or 0.6%.

For the six month period ended June 30, 2017, new vehicle gross profit increased by 0.1% which can be mainly attributed to an increase in new vehicle sales of 265 units or 1.4% offset by a decrease in the average gross profit per new vehicle sold of $40 or 1.3%.

Used vehicle gross profit decreased by $0.7 million or 5.2% in the three month period ended June 30, 2017 over the prior year. This was due to a decrease in the number of used vehicles sold of 472 units or 9.7%, offset by an increase in the average gross profit per used vehicle retailed of $126 or 4.9%.

For the six month period ended June 30, 2017, same stores used vehicle gross profits increased by $0.3 million or 1.4% which was mainly due to an increase in the average gross profit per vehicle retailed of $270 or 11.3% offset by a decrease in the number of vehicles retailed of 829 units.

Parts, service and collision repair gross profit decreased by $0.5 million or 1.0% in the three month period ended June 30, 2017 when compared to the same period in the prior year as a result of a decrease in the number of repair orders completed of 9,686, offset by an increase in the average gross profit per repair order completed of $9 or 3.8%.

For the six month period ended June 30, 2017, parts, service and collision repair gross profit decreased by $0.6 million or 0.7% which can be mainly attributed to a decrease in the number of repair orders completed of 25,219, offset by an increase in the average gross profit per repair order completed of $15 or 6.4%.

Finance and insurance gross profit increased by $0.8 million or 2.6% in the three month period ended June 30, 2017 when compared to the prior year as a result of an increase in the average gross profit per unit sold of $63 or 2.7%, offset by a decrease in units retailed of 20.

For the six month period ended June 30, 2017, finance and insurance gross profit increased by $0.5 million or 0.9% and can be attributed to an increase in the average gross profit per unit sold of $107, offset by a decrease in units retailed of 886.

The following table summarizes same store total revenue for the three month periods and six months periods ended June 30 by province:

	Three months ended June 30			**Six months ended June 30**		
(in thousands of dollars)	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
British Columbia	166,913	153,930	8.4%	277,890	291,843	(4.8)%
Alberta	301,570	310,379	(2.8)%	544,470	558,811	(2.6)%
Saskatchewan	67,150	70,280	(4.5)%	124,954	121,518	2.8%
Manitoba	52,165	50,009	4.3%	91,160	91,546	(0.4)%
Ontario	31,253	28,008	11.6%	50,722	50,242	1.0%
Quebec	103,863	101,055	2.8%	166,209	167,050	(0.5)%
Atlantic	49,090	57,196	(14.2)%	79,950	96,579	(17.2)%
Total	772,004	770,857	0.1%	1,335,355	1,377,589	(3.1)%

The following table summarizes same store total gross profit for the three month periods and six months period ended June 30 by province:

	Three months ended June 30			Six months ended June 30		
(in thousands of dollars)	**2017**	**2016**	**% Change**	**2017**	**2016**	**% Change**
British Columbia	24,919	22,990	8.4%	44,170	43,180	2.3%
Alberta	53,300	52,243	2.0%	98,377	98,224	0.2%
Saskatchewan	12,193	13,929	(12.5)%	23,206	23,307	(0.4)%
Manitoba	9,270	9,239	0.3%	17,298	17,162	0.8%
Ontario	4,261	3,959	7.6%	7,447	7,463	(0.2)%
Quebec	14,495	14,106	2.8%	24,161	23,696	2.0%
Atlantic	6,040	6,622	(8.8)%	10,733	12,181	(11.9)%
Total	124,478	123,088	1.1%	225,392	225,213	0.1%

8. ACQUISITIONS, RELOCATIONS AND REAL ESTATE

Dealership Operations and Expansion

Our goals are to maximize the profit potential of every store and to generate incremental growth through accretive acquisitions. With the addition of our first Mercedes-Benz dealership, we now currently operate 57 dealerships, representing 65 franchises. We continue to focus on our acquisition strategy, focusing on growth throughout Canada with a greater diversification in both geography and brand.

The Company is being patient with our acquisition strategy, focusing on acquisitions that are accretive and provide diversity. The Company plans to diversify across Canada through the acquisition of flagship stores in major markets. Management and the Company have excellent relationships with our manufacturer partners, providing the Company with greater opportunities with brands we currently operate.

Mercedes-Benz Rive-Sud

On May 1, 2017, the Company purchased all of the voting shares of 8421722 Canada Inc., which owns and operates a Mercedes-Benz dealership in Montreal, Quebec, along with all of the operating and fixed assets of 9343091 Canada Inc. which owns and operates the dealership's body-shop (together "Mercedes-Benz Rive-Sud"), for total cash consideration of $16.1 million. The acquisition was funded by drawing on the Company's revolving term facility. In 2016, the dealership retailed 1,270 new and used vehicles and generated revenue of $90 million. This dealership represents our first Mercedes-Benz franchise and we are extremely pleased to have added a top selling luxury brand to our portfolio and look forward to sustained success and growth in Mercedes-Benz.

History has shown that within two years a newly acquired store adopts AutoCanada processes and culture. As we expand our presence into eastern Canada we are establishing regional and brand specialists whose role it is to ensure that every store in our portfolio meets not only our volume and profit targets but also every automaker sales and customer satisfaction objectives.

AutoCanada continues to diligently evaluate acquisition opportunities. We believe that we have sufficient capital to be able to acquire stores that meet our specific criteria in 2017. While our focus remains on flagship stores in each market, we are also targeting smaller stores that offer both organic growth as well as synergies with our other local stores.

Dealership Open Points

The retail automotive industry is a mature industry and rights to open new franchised automobile dealerships are rarely awarded by the automobile manufacturers. However, from time to time automobile manufacturers may seek to establish new dealerships in attractive markets. The right to open a new franchised automobile dealership in a specific location granted by an automobile manufacturer to a dealer is referred to in the industry as an Open Point. Generally, a new franchised automobile dealership is fully performing within one to three years depending on the manufacturer and location.

The Company will review on a case by case basis whether to own or lease a particular dealership facility. In either case, the Company would incur the costs of equipping and furnishing these facilities, including the costs relating to the integration of our management information systems into the new dealerships. Costs relating to Open Points are significant, and vary by dealership depending upon size and location.

Volkswagen – Sherwood Park, Alberta

In February 2014, the Company announced that it had been awarded the right to a Volkswagen Open Point dealership in Sherwood Park, Alberta. The Company has constructed an approximately 45,000 square foot facility in Sherwood Park, designed to Volkswagen Canada image standards. The dealership opened on February 1, 2017. The Volkswagen Open Point has a potential of 800 new vehicles annually which the Company anticipates achieving in two to three years of operation.

Nissan – Calgary, Alberta

The dealership construction is expected to begin late 2017 with anticipated opening in mid 2018. The dealership will be constructed by a third party and subsequently leased by the Company.

Nissan - Ottawa, Ontario

AutoCanada intends to operate the dealership out of a new facility, designed to Nissan image standards, with construction commenced and anticipated opening in late 2017.

Capital Plan

The Company maintains a capital plan for contemplated future capital projects. Details of the capital plan are described below:

Dealership Relocations

Management estimates the total capital requirements of currently planned dealership relocations to be approximately $31.5 million to the end of 2019. The Company expects dealership relocations to provide long term earnings sustainability and result in significant improvements in revenues and overall profitability. Management continually updates its capital plan and as such the estimates provided may vary as delays occur or projects are added or removed.

Current Dealership Expansion and Imaging Requirements

The Company has identified approximately $65.3 million in capital costs that it may incur to expand or renovate various current locations through to 2021. The Company is required by its manufacturers to undertake periodic imaging upgrades to its facilities.

Open Point Opportunities

Management regularly reviews potential Open Point opportunities. If successful in being awarded these opportunities, Management would then estimate additional capital costs to construct suitable facilities for Open Points. The Company currently estimates approximately $27.9 million in capital costs that it may incur by the first quarter of 2019 related to currently awarded Open Points. If awarded in the future, Management will provide additional cost estimates and timing of construction. In order to be successful in some opportunities, Management may be required to secure appropriate land for the potential Open Points, in which case, additional land purchase costs may be incurred in the future.

The following summarizes the capital plan for contemplated future capital projects:

(in millions of dollars)	2017	2018	2019	2020	2021	Total
Same Store						
Dealership Relocations	2.5	9.6	19.4	-	-	31.5
Current Dealership Expansion and Imaging Requirements	2.4	12.2	7.4	20.6	10.5	53.1
Capital Plan	4.9	21.8	26.8	20.6	10.5	84.6
Expected to be financed	-	7.6	2.1	-	-	9.7
Cash Outlay[1]	4.9	14.2	24.7	20.6	10.5	74.9
Non Same Store						
Current Dealership Expansion and Imaging Requirements	1.4	2.5	2.5	2.8	3.0	12.2
Open Point Opportunities	13.3	11.8	2.8	-	-	27.9
Capital Plan	14.7	14.3	5.3	2.8	3.0	40.1
Expected to be financed	10.0	7.6	2.1	-	-	19.7
Cash Outlay[1]	4.7	6.7	3.2	2.8	3.0	20.4
Total Capital Plan	19.6	36.1	32.1	23.4	13.5	124.7
Total Cash outlay[1]	9.6	20.9	27.9	23.4	13.5	95.3

(1) *Refers to amount expected to be funded by internal Company cash flow.*

The five year capital plan at June 30, 2017 is $124.7 million for contemplated future capital projects remaining. Of this, the Company is committed to capital expenditure obligations in the amount of $11.9 million with expected completion of these commitments during the year.

Notwithstanding the capital plan laid out above, expected capital expenditures are subject to deferral due to issues in obtaining permits, construction delays, changes in re-imaging requirements, economic factors, or other delays that are normal to the construction process. The above is considered to be a guide for when the Company expects to perform capital expenditures, however, significant deferral may occur in the future. Management closely monitors the capital plan and adjusts as appropriate based on Company performance, manufacturer requirements, expected economic conditions, and individual dealership needs. Management performs a robust analysis on all future expenditures prior to the allocation of funds. Timing of dealership relocations is determined based on the dealership's current performance, the market, and expected return on invested capital. It is expected that a dealership relocation will result in improved performance and increased profitability.

9. LIQUIDITY AND CAPITAL RESOURCES

Our principal uses of funds are for capital expenditures, repayment of debt, funding the future growth of the Company and paying dividends to Shareholders. We have historically met these requirements by using cash generated from operating activities and through short term and long term indebtedness. The Company had drawn $159.0 million on its $250.0 million revolving term facility as at June 30, 2017.

Under our franchise agreements, manufacturers require us to maintain a minimum level of working capital. We maintain working capital in excess of manufacturer requirements which may be used for capital expenditures.

Cash Flow from Operating Activities

Cash flow from operating activities (including changes in non-cash working capital) of the Company for the three month period ended June 30, 2017 was $12.3 million (cash provided by operating activities of $37.4 million less negative net change in non-cash working capital of $25.1 million) compared to $40.4 million (cash provided by operating activities of $24.1 million plus net change in non-cash working capital of $16.3 million) in the same period of the prior year.

Cash Flow from Investing Activities

For the three month period ended June 30, 2017, cash flow from investing activities of the Company was a net outflow of $20.1 million as compared to a net outflow of $42.3 million in the same period of the prior year, which is mainly attributable to capital expenditures in 2016.

Cash Flow from Financing Activities

For the three month period ended June 30, 2017, cash flow from financing activities was a net inflow of $2.4 million as compared to a net inflow of $8.7 million in the same period of 2016, which is mainly attributable decreased proceeds from indebtedness related to decreased usage of the revolving facility in 2017.

Credit Facilities and Floor Plan Financing

Details of the Company's credit facilities and floorplan financing are included in Note 28 of the annual audited consolidated financial statements for the year ended December 31, 2016. Updates to credit facilities and floorplan financing are included in Note 21 of the interim consolidated financial statements for the three and six month period ended June 30, 2017.

Key Financial Covenants

The Company is required by its debt agreements to comply with several financial covenants. The following is a summary of the Company's actual performance against its financial covenants as at June 30, 2017:

Financial Covenant	Requirement	Q2 2017 Actual Calculation	Q1 2017 Actual Calculation
Syndicated Revolver:			
Senior Secured Leverage Ratio	Shall not exceed 2.75	1.60	1.85
Adjusted Total Leverage Ratio	Shall not exceed 5.00	3.87	4.42
Fixed Charge Coverage Ratio	Shall not be less than 1.20	3.64	3.21
Current Ratio	Shall not be less than 1.05	1.12	1.09
Syndicated Floorplan:			
Current Ratio	Shall not be less than 1.10	1.15	1.13
Tangible Net Worth (millions)	Shall not be less than $40 million	$88.5	$83.0
Debt to Tangible Net Worth	Shall not exceed 7.50	4.64	5.45

The covenants above are based on consolidated financial statements of the dealerships that are financed directly by the lender. As a result, the actual performance against the covenant does not necessarily reflect the actual performance of AutoCanada. The Company is required to comply with other covenants under the terms of its remaining credit agreements. The Company stress tests all covenants on a monthly and quarterly basis and notes that a significant drop in performance would be necessary to breach the covenants.

As at June 30, 2017, the Company is in compliance with all of its financial covenants.

Financial Instruments

Details of the Company's financial instruments, including risks and uncertainties are included in Note 25 of the annual audited consolidated financial statements for the year ended December 31, 2016. There have been no significant changes to the Company's financial instruments since that time.

Growth vs. Non-Growth Capital Expenditures

Non growth capital expenditures are capital expenditures incurred during the period to maintain existing levels of service. These include capital expenditures to replace property and equipment and any costs incurred to enhance the operational life of existing property and equipment. Non growth capital expenditures can fluctuate from period to period depending on our needs to upgrade or replace existing property and equipment. Over time, we expect to incur annual non growth capital expenditures in an amount approximating our amortization of property and equipment reported in each period.

Additional details on the components of non-growth property and equipment purchases are as follows:

(in thousands of dollars)	April 1, 2017 to June 30, 2017	January 1, 2017 to June 30, 2017
Leasehold improvements	282	282
Machinery and equipment	418	707
Furniture and fixtures	107	215
Computer equipment	271	378
	1,078	1,582

Amounts relating to the expansion of sales and service capacity are considered growth expenditures. Growth expenditures are discretionary, represent cash outlays intended to provide additional future cash flows and are expected to provide benefit in future periods. Dealership relocations are included as growth expenditures if they contribute to the expansion of sales and service capacity of the dealership. During the three month and six month period ended June 30, 2017, growth capital expenditures of $4.4 million and $8.7 were incurred, respectively. These expenditures related primarily to costs relating to the opening of Sherwood Park Volkswagen as well as building construction costs for dealership relocations and future Open Point dealerships.

The following table provides a reconciliation of the purchase of property and equipment as reported on the Statement of Cash Flows to the purchase of non-growth property and equipment as calculated in the free cash flow section below:

(in thousands of dollars)	April 1, 2017 to June 30, 2017	January 1, 2017 to June 30, 2017
Purchase of property and equipment from the Statement of Cash Flows	5,430	10,274
Less: Amounts related to the expansion of sales and service capacity	(4,352)	(8,692)
Purchase of non-growth property and equipment	1,078	1,582

Repairs and maintenance expenditures are expensed as incurred and have been deducted from earnings for the period. Repairs and maintenance expense incurred during the three month period and six month period ended June 30, 2017 were $1.8 million and $3.4 million (2016 - $1.4 million and 3.1 million), respectively.

Planned Capital Expenditures

Our capital expenditures consist primarily of leasehold improvements, the purchase of furniture and fixtures, machinery and equipment, service vehicles, computer hardware and computer software. Management expects that our annual capital expenditures will increase in the future, as a function of increases in the number of locations requiring maintenance capital expenditures, the cost of opening new locations and increased spending on information systems.

For further information regarding planned capital expenditures, see “ACQUISITIONS, RELOCATIONS AND REAL ESTATE” above.

Financial Position

The following table shows selected audited balances of the Company (in thousands) for December 31, 2016 and December 31, 2015, as well as unaudited balances of the Company at June 30, 2017, March 31, 2017, September 30, 2016, June 30, 2016, March 31, 2016, and September 30, 2015:

(in thousands of dollars)	June 30, 2017	March 31, 2017	Dec. 31, 2016	Sep. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	Dec. 31, 2015	Sep. 30, 2015
Cash and cash equivalents	95,417	100,402	103,221	96,368	77,582	72,878	62,274	77,071
Trade and other receivables	157,275	113,688	85,587	108,363	115,427	116,092	90,821	118,853
Inventories	629,171	701,559	619,718	597,831	555,957	628,641	596,542	581,258
Total Assets	1,698,290	1,707,063	1,600,615	1,547,344	1,548,879	1,578,225	1,532,182	1,508,028
Revolving floorplan facilities	624,847	688,173	582,695	569,581	532,283	600,578	548,322	550,857
Non-current debt and lease obligations	338,212	330,563	330,351	291,408	295,922	293,273	285,759	313,073

Net Working Capital

The automobile manufacturers represented by the Company require the Company to maintain net working capital for each individual dealership. At June 30, 2017, the aggregate of net working capital requirements was approximately $108.8 million. At June 30, 2017, all working capital requirements had been met by each dealership. The working capital requirements imposed by the automobile manufacturers' may limit our ability to fund capital expenditures, acquisitions, dividends, or other commitments in the future if sufficient funds are not generated by the Company. Net working capital, as defined by automobile manufacturers, may not reflect net working capital as determined using GAAP measures. As a result, it is possible that the Company may meet automobile manufacturers' net working capital requirements without having sufficient aggregate working capital using GAAP measures. The Company defines net working capital amounts as current assets less current liabilities as presented in the consolidated financial statements.

The net working capital requirements above restrict the Company's ability to transfer funds up from its subsidiaries, as each subsidiary dealership is required to be appropriately capitalized as explained above. In addition, our VCCI Facilities require the VW and Audi dealerships to maintain minimum cash and equity, which also restricts our ability to transfer and consolidate funds.

Off Balance Sheet Arrangements

The Company has operating lease commitments, with varying terms through 2037, to lease premises and equipment used for business purposes. The Company leases the majority of the lands and buildings used in its franchised automobile dealership operations from related parties and other third parties.

The minimum lease payments over the upcoming fiscal years will be as follows:

(in thousands of dollars)	$
Remainder of 2017	10,308
2018	18,892
2019	16,429
2020	14,430
2021	14,199
Thereafter	144,490
Total	218,748

Information regarding our contractual obligations with respect to long-term debt, capital lease obligations and other long-term obligations is included in the Liquidity Risk section of Note 25 of the Company's annual consolidated financial statements.

Related Party Transactions

Note 34 of the annual consolidated financial statements of the Company for the year ended December 31, 2016 summarizes the transactions between the Company and its related parties.

Transactions with Companies Controlled by the Chair of the Board of Directors of AutoCanada

Until May 5, 2017, Priestner was the Chair of AutoCanada and was a related party as a result of his position on the Board of Directors of AutoCanada. Prior to Priestner's retirement on May 5, 2017, the company had financial transactions with entities controlled by Priestner. Priestner is the controlling shareholder of Canada One Auto Group ("COAG") and its subsidiaries, which beneficially own approximately 8.6% (2016 – 8.6%) of the Company's shares. In addition to COAG, Priestner is the controlling shareholder of other companies from which AutoCanada earns administrative fees. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. All significant transactions between AutoCanada and companies controlled by Priestner were approved by the Company's independent members of the Board of Directors.

Loan to related parties.

The Company has provided dealership loan financing to PPH Holdings Ltd. ("PPH"), a company controlled and formed by Priestner. The Company holds no ownership interest in PPH or its subsidiaries. The loans to associates have been structured as executed to satisfy the requirements of the manufacturer. It is the Company's belief that these loan investments will provide future opportunities to finance further acquisitions, thereby acquiring additional revenue and income streams from this manufacturer.

10. OUTSTANDING SHARES

As at June 30, 2017, the Company had 27,459,683 common shares outstanding. Basic and diluted weighted average number of shares outstanding for the three month period ended June 30, 2017 were 27,378,919 and 27,437,830, respectively. As at June 30, 2017, the value of the shares held in trust was $1.3 million (2016 – $3.0 million) which was comprised of 70,177 (2016 - 112,047) in shares with a nil aggregate cost. As at August 10, 2017, there were 27,459,683 shares issued and outstanding.

11. DIVIDENDS

Management reviews the Company's financial results on a monthly basis. The Board of Directors reviews the financial results periodically to determine whether a dividend shall be paid based on a number of factors.

The following table summarizes the dividends declared by the Company in 2017:

Record date	Payment date	Per Share $	Total $
February 28, 2017	March 15, 2017	0.10	2,736
May 31, 2017	June 15, 2017	0.10	2,739
		0.20	5,475

On August 10, 2017 the Board declared a quarterly eligible dividend of $0.10 per common share on AutoCanada's outstanding Class A shares, payable on September 15, 2017 to shareholders of record at the close of business on August 31, 2017.

As per the terms of the HSBC facility, we are restricted from declaring dividends and distributing cash if we are in breach of financial covenants or our available margin and facility limits or if such dividend would result in a breach of our covenants or our available margin and facility limits. At this time, the Company is within its covenants.

12. FREE CASH FLOW

The Company has defined free cash flow to be cash flows provided by operating activities (including changes in non-cash operating working capital) less capital expenditures (excluding capital assets acquired by acquisitions or purchases of real estate).

(in thousands of dollars, except unit and per unit amounts)	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Cash provided by operating activities	12,255	2,967	24,930	32,594	40,374	6,831	12,420	20,139
Deduct:								
Purchase of property and equipment	(1,273)	(2,346)	(1,506)	(1,697)	(2,452)	(2,786)	(3,354)	(5,144)
Free cash flow [1]	10,982	621	23,424	30,897	37,922	4,045	9,066	14,995
Weighted average shares outstanding at end of period	27,378,919	27,358,766	27,353,431	27,347,585	27,338,767	27,362,440	25,016,637	24,440,080
Free cash flow per share	0.40	0.02	0.86	1.13	1.39	0.15	0.36	0.61
Free cash flow 12 month trailing	65,924	92,864	96,288	81,930	66,028	45,882	38,675	69,431

(1) *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

Management believes that free cash flow (see "NON-GAAP MEASURES") can fluctuate significantly as a result of historical fluctuations in our business operations that occur on a quarterly basis as well as the resulting fluctuations in our trade receivables and inventory levels and the timing of the payments of trade payables and revolving floorplan facilities.

Changes in non-cash working capital consist of fluctuations in the balances of trade and other receivables, inventories, finance lease receivables, other current assets, trade and other payables, vehicle repurchase obligations and revolving floorplan facilities. Factors that can affect these items include seasonal sales trends, strategic decisions regarding inventory levels, the addition of new dealerships, and the day of the week on which period end cutoffs occur.

The following table summarizes the net decrease in cash due to changes in non-cash working capital for the three month periods ended June 30, 2017 and June 30, 2016.

(in thousands of dollars)	January 1, 2017 to June 30, 2017	January 1, 2016 to June 30, 2016
Trade and other receivables	(66,316)	(24,589)
Inventories	4,466	40,596
Finance lease receivables	(4,067)	(2,938)
Other current assets	(3,080)	(2,939)
Trade and other payables	6,447	20,664
Vehicle repurchase obligations	582	(354)
Revolving floorplan facilities	24,114	(16,039)
	(37,854)	14,401

Adjusted Free Cash Flow

The Company has defined adjusted free cash flow to be cash flows provided by operating activities (before changes in non-cash operating working capital) less non-growth capital expenditures.

(in thousands of dollars, except unit and per unit amounts)	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015
Cash provided by operating activities before changes in non-cash working capital	37,355	15,721	14,344	28,996	24,050	8,754	11,242	23,082
Deduct:								
Purchase of non-growth property and equipment	(1,078)	(504)	(1,211)	(1,230)	(2,418)	(2,719)	(3,164)	(4,131)
Adjusted free cash flow [1]	36,277	15,217	13,133	27,766	21,632	6,035	8,078	18,951
Weighted average shares outstanding at end of period	27,378,919	27,358,766	27,353,431	27,347,585	27,338,767	27,362,440	25,016,637	24,440,080
Adjusted free cash flow per share	1.32	0.56	0.48	1.02	0.79	0.22	0.32	0.78
Adjusted free cash flow-12 month trailing	92,393	77,748	68,566	63,511	54,696	52,251	38,796	47,840

(1) *This financial measure is identified and defined under the section "NON-GAAP MEASURES".*

Management believes that non-growth property and equipment is necessary to maintain and sustain the current productive capacity of the Company's operations and cash available for growth. Management believes that maintenance capital expenditures should be funded by cash flow provided by operating activities. Capital spending for the expansion of sales and service capacity is expected to improve future free cash and as such is not deducted from cash flow provided by operating activities before changes in non-cash working capital in arriving at adjusted free cash flow. Adjusted free cash flow is a measure used by Management in forecasting and determining the Company's available resources for future capital expenditure, repayment of debt, funding the future growth of the Company and dividends to Shareholders.

In the six month period ending June 30, 2017, the Company paid approximately $2.3 million in 2017 tax installments (2016 - $7.3 million in income taxes and tax installments). Accordingly, this reduced our adjusted free cash flow by this amount. The Company expects the payment of corporate income taxes to have a more significant negative affect on free cash flow and adjusted free cash flow. See "RESULTS FROM OPERATIONS – Income Taxes" for further detail regarding the impact of corporate income taxes on cash flow.

Adjusted Return on Capital Employed

The Company has defined Adjusted Return on Capital Employed to be EBIT (EBITDA, as defined in ("NON-GAAP MEASURES"), less depreciation and amortization) divided by Average Capital Employed in the Company (average of shareholders' equity and interest bearing debt, excluding floorplan financing, for the period, less the comparative adjustment defined below). Calculations below represent the results on a quarterly basis, except for the adjusted return on capital employed - 12 month trailing which incorporates the results based on the trailing 12 months for the periods presented.

(in thousands of dollars, except unit and per unit amounts)	**Q2 2017**	**Q1 2017**	**Q4 2016**	**Q3 2016**	**Q2 2016**	**Q1 2016**	**Q4 2015**	**Q3 2015**
EBITDA[1,2]	47,757	17,228	28,536	26,915	30,845	21,010	23,524	29,487
Deduct:								
Depreciation of property and equipment	(5,082)	(4,852)	(4,921)	(4,860)	(4,822)	(4,954)	(5,176)	(5,063)
EBIT[1,2]	42,675	12,376	23,615	22,055	26,023	16,056	18,348	24,424
Average long-term debt	357,103	351,986	333,310	315,678	310,281	300,520	312,471	314,443
Average shareholder's equity	510,610	498,732	491,026	503,163	516,513	510,595	481,112	447,774
Average capital employed[1]	867,713	850,718	824,336	818,841	826,794	811,115	793,583	762,217
Return on capital	4.9%	1.5%	2.9%	2.7%	3.1%	2.0%	2.3%	3.2%
Comparative adjustment[3]	25,959	25,959	25,959	(13,191)	(13,191)	(13,191)	(13,191)	(17,264)
Adjusted average capital employed[1]	893,672	876,677	830,720	805,650	813,603	797,924	778,354	744,953
Adjusted return on capital employed[1]	4.8%	1.4%	2.8%	2.7%	3.2%	2.0%	2.4%	3.3%
Adjusted return on capital employed - 12 month trailing	11.8%	9.9%	10.9%	10.6%	11.2%	11.7%	11.2%	12.7%

(1) *These financial measures are identified and defined under the section "NON-GAAP MEASURES".*
(2) *EBITDA and EBIT used in the calculation of Adjusted Return on Capital Employed is calculated using the financial results including non-controlling interests.*
(3) *A comparative adjustment has been made to adjust for impairments and reversals of impairments of intangible assets. Due to the increased frequency of impairments and reversals of impairments, Management has provided an adjustment to freeze intangible assets at the pre-IFRS amount of $43,700. As a result, all differences from January 1, 2010 forward under IFRS have been adjusted at the post-tax rate at the time the adjustment to the intangible asset carrying amount was made. Management believes that the adjusted return on capital employed provides more useful information about the return on capital employed.*

Management believes that Adjusted Return on Capital Employed (see "NON-GAAP MEASURES") is a good measure to evaluate the profitability of our invested capital. As a corporation, Management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment is expected to create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole to ensure shareholder value is being achieved by these capital investments.

13. CRITICAL ACCOUNTING ESTIMATES AND ACCOUNTING POLICY DEVELOPMENTS

A complete listing of critical accounting policies, estimates, judgments and measurement uncertainty can be found in Notes 3 and 5 of the annual consolidated financial statements for the year ended December 31, 2016.

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or International Financial Reporting Interpretations Committee ("IFRIC") that are not yet effective for the period ended June 30, 2017. A listing of the standards issued which are applicable to the Company can be found in Note 5 of the condensed interim consolidated financial statements and Note 4 of the annual consolidated financial statements for the year ended December 31, 2016. The Company adopted the amendments to IAS 7, *Statement of Cash Flows*, effective for the annual consolidated financial statements commencing January 1, 2017. The amendment standard does not have a material impact on the financial statements.

14. DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2017, there were no changes in the Company's disclosure controls or internal controls over financial reporting that materially affected, or would be reasonable likely to materially affect, such controls.

15. RISK FACTORS

We face a number of business risks that could cause our actual results to differ materially from those disclosed in this MD&A (See "FORWARD LOOKING STATEMENTS"). Investors and the public should carefully consider our business risks, other uncertainties and potential events as well as the inherent uncertainty of forward looking statements when making investment decisions with respect to AutoCanada. If any of the business risks identified by AutoCanada were to occur, our business, financial condition, results of operations, cash flows or prospects could be materially adversely affected. In such case, the trading price of our shares could decline. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also adversely affect our business and operations. A comprehensive discussion of the known risk factors of AutoCanada and additional business risks is available in our 2016 Annual Information Form dated March 16, 2017 available on the SEDAR website at www.sedar.com.

16. FORWARD LOOKING STATEMENTS

Certain statements contained in the MD&A are forward looking statements and information (collectively "forward-looking statements"), within the meaning of the applicable Canadian securities legislation. We hereby provide cautionary statements identifying important factors that could cause our actual results to differ materially from those projected in these forward looking statements. Any statements that express, or involve discussions as to, expectations, beliefs, plans, objectives, assumptions or future events or performance (often, but not always, through the use of words or phrases such as "will likely result", "are expected to", "will continue", "is anticipated", "projection", "vision", "goals", "objective", "target", "schedules", "outlook", "anticipate", "expect", "estimate", "could", "should", "plan", "seek", "may", "intend", "likely", "will", "believe", "shall" and similar expressions are not historical facts and are forward-looking and may involve estimates and assumptions and are subject to risks, uncertainties and other factors some of which are beyond our control and difficult to predict. Accordingly, these factors could cause actual results or outcomes to differ materially from those expressed in the forward looking statements. Therefore, any such forward looking statements are qualified in their entirety by reference to the factors discussed throughout this document.

Details of the Company's material forward looking statements are included in the Company's most recent Annual Information Form. The Company's most recent Annual Information Form and other documents filed with securities regulatory authorities (accessible through the SEDAR website www.sedar.com) describe the risks, material assumptions and other factors that could influence actual results and which are incorporated herein by reference.

Further, any forward-looking statement speaks only as of the date on which such statement is made, and, except as required by applicable law, we undertake no obligation to update any forward looking statement to reflect events or circumstances after the date on which such statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for Management to predict all of such factors and to assess in advance the impact of each such factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward looking statement.

17. NON-GAAP MEASURES

Our MD&A contains certain financial measures that do not have any standardized meaning prescribed by Canadian GAAP. Therefore, these financial measures may not be comparable to similar measures presented by other issuers. Investors are cautioned these measures should not be construed as an alternative to net earnings (loss) or to cash provided by (used in) operating, investing, and financing activities determined in accordance with Canadian GAAP, as indicators of our performance. We provide these measures to assist investors in determining our ability to generate earnings and cash provided by (used in) operating activities and to provide additional information on how these cash resources are used. We list and define these “NON-GAAP MEASURES” below:

EBITDA

EBITDA is a measure commonly reported and widely used by investors as an indicator of a company’s operating performance and ability to incur and service debt, and as a valuation metric. The Company believes EBITDA assists investors in comparing a company’s performance on a consistent basis without regard to depreciation and amortization and asset impairment charges which are non-cash in nature and can vary significantly depending upon accounting methods or non-operating factors such as historical cost. References to "EBITDA" are to earnings before interest expense (other than interest expense on floorplan financing and other interest), income taxes, depreciation, amortization and asset impairment charges. EBITDA attributable to AutoCanada shareholders refers to the parent portion of consolidated financial results. Non-controlling interest (the portion of ownership not attributable to the parent) is excluded.

Adjusted EBITDA

Adjusted EBITDA is an indicator of a company's operating performance and ability to incur and service debt. The portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs, the revaluation of redemption liabilities, the unrealized gain or loss on embedded derivatives, gains or losses on dealership divestitures and certain non-recurring items are added back to EBITDA to get to adjusted EBITDA. The Company believes adjusted EBITDA provides a better representation of continuing operations and improved continuity with respect to the comparison of our operating results over a period of time. Adjusted EBITDA attributable to AutoCanada shareholders refers to the parent portion of consolidated financial results. Non-controlling interest (the portion of ownership not attributable to the parent) is excluded.

Adjusted net earnings and Adjusted net earnings per share

Adjusted net earnings and adjusted net earnings per share are measures of our profitability. Adjusted net earnings is calculated by adding back the after-tax effect of impairment or reversals of impairment of intangible assets, impairments of goodwill, the revaluation of redemption liabilities, the unrealized gain or loss on embedded derivatives, and the portion of share-based compensation related to changes in the share price and its impact on the Company's cash-settled portions of its share-based compensation programs, gains or losses on dealership divestitures and certain non-recurring items. Adding back these amounts to net earnings allows Management to better assess the net earnings of the Company from continuing operations. Adjusted net earnings per share is calculated by dividing adjusted net earnings by the weighted-average number of shares outstanding.

EBIT

EBIT is a measure used by Management in the calculation of Return on capital employed (defined below). Management's calculation of EBIT is EBITDA (calculated above) less depreciation and amortization.

Free Cash Flow

Free cash flow is a measure used by Management to evaluate its performance. While the closest Canadian GAAP measure is cash provided by operating activities, free cash flow is considered relevant because it provides an indication of how much cash generated by operations is available after capital expenditures. It shall be noted that although we consider this measure to be free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, re-investment in the Company, potential acquisitions, or other purposes. Investors should be cautioned that free cash flow may not actually be available for growth or distribution of the Company. References to "Free cash flow" are to cash provided by (used in) operating activities (including the net change in non-cash working capital balances) less capital expenditure (not including acquisitions of dealerships and dealership facilities).

Adjusted Free Cash Flow

Adjusted free cash flow is a measure used by Management to evaluate its performance. Adjusted free cash flow is considered relevant because it provides an indication of how much cash generated by operations before changes in non-cash working capital is available after deducting expenditures for non-growth capital assets. It shall be noted that although we consider this measure to be adjusted free cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for distributions, re-investment in the Company, potential acquisitions, or other purposes. Investors should be cautioned that adjusted free cash flow may not actually be available for growth or distribution of the Company. References to "Adjusted free cash flow" are to cash provided by (used in) operating activities (before changes in non-cash working capital balances) less non-growth capital expenditures.

Absorption Rate

Absorption rate is an operating measure commonly used in the retail automotive industry as an indicator of the performance of the parts, service and collision repair operations of a franchised automobile dealership. Absorption rate is not a measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. Therefore, absorption rate may not be comparable to similar measures presented by other issuers that operate in the retail automotive industry. References to ''absorption rate'' are to the extent to which the gross profits of a franchised automobile dealership from parts, service and collision repair cover the costs of these departments plus the fixed costs of operating the dealership, but does not include expenses pertaining to our head office. For this purpose, fixed operating costs include fixed salaries and benefits, administration costs, occupancy costs, insurance expense, utility expense and interest expense (other than interest expense relating to floor plan financing) of the dealerships only.

Average Capital Employed

Average capital employed is a measure used by Management to determine the amount of capital invested in AutoCanada and is used in the measure of Return on Capital Employed (described below). Average capital employed is calculated as the average balance of interest bearing debt for the period (including current portion of long-term debt, excluding revolving floorplan facilities) and the average balance of shareholders equity for the period. Management does not include future income tax, non-interest bearing debt, or revolving floorplan facilities in the calculation of average capital employed as it does not consider these items to be capital, but rather debt incurred to finance the operating activities of the Company.

Adjusted Average Capital Employed

Adjusted average capital employed is a measure used by Management to determine the amount of capital invested in AutoCanada and is used in the measure of Adjusted Return on Capital Employed (described below). Adjusted average capital employed is calculated as the average balance of interest bearing debt for the period (including current portion of long-term debt, excluding revolving floorplan facilities) and the average balance of shareholders equity for the period, adjusted for impairments of intangible assets, net of deferred tax. Management does not include future income tax, non-interest bearing debt, or revolving floorplan facilities in the calculation of adjusted average capital employed as it does not consider these items to be capital, but rather debt incurred to finance the operating activities of the Company.

Return on Capital Employed

Return on capital employed is a measure used by Management to evaluate the profitability of our invested capital. As a corporation, Management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole to ensure shareholder value is being achieved by these capital investments. Return on capital employed is calculated as EBIT (defined above) divided by Average Capital Employed (defined above).

Adjusted Return on Capital Employed

Adjusted return on capital employed is a measure used by Management to evaluate the profitability of our invested capital. As a corporation, management of AutoCanada may use this measure to compare potential acquisitions and other capital investments against our internally computed cost of capital to determine whether the investment shall create value for our shareholders. Management may also use this measure to look at past acquisitions, capital investments and the Company as a whole to ensure shareholder value is being achieved by these capital investments. Adjusted return on capital employed is calculated as EBIT (defined above) divided by Adjusted Average Capital Employed (defined above).

Cautionary Note Regarding Non-GAAP Measures

EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed, Adjusted Average Capital Employed and Adjusted Return on Capital Employed are not earnings measures recognized by GAAP and do not have standardized meanings prescribed by GAAP. Investors are cautioned that these non-GAAP measures should not replace net earnings or loss (as determined in accordance with GAAP) as an indicator of the Company's performance, of its cash flows from operating, investing and financing activities or as a measure of its liquidity and cash flows. The Company's methods of calculating EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed. Adjusted Average Capital Employed and Adjusted Return on Capital Employed may differ from the methods used by other issuers. Therefore, the Company's EBITDA, EBIT, Free Cash Flow, Absorption Rate, Average Capital Employed, Return on Capital Employed, Adjusted Average Capital Employed and Adjusted Return on Capital Employed may not be comparable to similar measures presented by other issuers.

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